FINANCE

Parent Company Guarantees and Performance Bonds Principles for Requesting

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2.0	2 Year Review – No Changes Minor changes to responsibilities due to organisational change eg Project Director references. Removed Appendix - Financial year 11/12 contracts let below the £10m threshold (out of date)

Contents

1 Purpose

The purpose of this document is to give guidance on the application of the Crossrail Procurement Policy covering financial appraisal, parent company guarantees ("PCGs") and performance bonds to smaller procurements.

The relevant sections of the Procurement Policy are as follows. These sections are drafted to refer to main contracts.

KPP19 – CRL will seek parent company guarantees from the ultimate parent company of all main contractors, and where the contract is with a joint venture, CRL will normally require guarantees from the ultimate parent of each joint venture member.

3.7.7 A parent company guarantee provides protection for the employer through a guarantee that the contract will be properly performed by its subsidiary. If the contractor is in breach of contract then the guarantor must perform in his place or be liable for any resultant loss. The value of the guarantee is only as good as the strength of the parent company and generally therefore, CRL will seek guarantees from the ultimate parent to minimise the risk that voluntary corporate restructuring reduces the net asset value of the guarantor company.

KPP20 – CRL will require on default performance bonds to enhance the financial covenant of the contractor and any parent company guarantor if the cost of the bond represents value for money.

3.7.8 Bonds from a bank or other financial institution are an additional source of funding for compensation, up to a fixed amount, in the event that the Contractor causes the Employer to suffer loss. With on default bonds the employer must show that there has been a breach and that loss has been suffered before the employer can call on the bond. It is Government policy that unconditional on demand bonds are essentially unfair and should not be used in government procurement.

In addition there is a pre-qualification requirement to demonstrate that the tenderer is of sufficient economic and financial capacity.

2 Parent Company Guarantees

Where a PCG is required this guarantee shall be in the standard Crossrail form.

The guarantee shall be from the global ultimate parent company. There may be instances where the guarantee will be accepted from a body that is not the global ultimate parent e.g. where the ultimate parent is in the nature of a shareholder, such as an investment or pension trust.

If a tenderer is unwilling to give a guarantee from the global ultimate parent company then the decision about whether to disqualify the tenderer or whether Crossrail will accept a guarantee from a lower tier of the organisation or other form of surety rests with the Finance Operations Director.

There are also situations where the global ultimate parent may not legally be able to provide a parent company guarantee for example a foreign registered corporate parent which is not permitted to operate in the UK would be unable to provide a parent company guarantee, in this circumstance the decision about whether to disqualify the tenderer or whether Crossrail will accept a guarantee from a lower tier of the organisation or other form of surety rests with the Finance Operations Director.

Where suppliers have formed a joint venture then a global ultimate parent company guarantee shall be required from all parties to the JV.

3 Performance Bonds

The required financial status of the providers of bonds and insurance is as follows:

- Standard & Poor's minimum credit rating and /or financial strength rating of A (or equivalent from a rating agency of similar standing); and
- Dun & Bradstreet minimum rating of 5A 1; and
- Dun & Bradstreet minimum failure score of 86/100.

In addition the provider should be licensed to carry out surety business in the United Kingdom.

A bond from a fellow subsidiary does not diversify the risk of failure and accordingly Crossrail will not accept a performance bond from a company that is part of the same group of companies as the economic operator tendering for the work.

The standard performance bond required on Crossrail contracts is a 10% on default bond. The cost of providing on default bonds is part of the defined cost. The cost will typically be between 1-4% of the value of the bond.

4 Economic and financial capacity

The financial evaluation of tenders will be dependent upon:

- for works contracts: the contract value (defined as tendered Total of the Prices)
- for services contracts: peak annual expected contract turnover.

Contract value / Peak Annual Expected Contract Turnover	Financial Evaluation Required
Under £25k	If the Procurement leader is satisfied that the bidder has a D&B failure score higher than 10 and meets the turnover requirement (normally annual turnover at least 4 times annual contract turnover), no evaluation by Finance is required
£25k - £300k	Finance to review the latest available financial accounts (to be supplied by the bidder) and the D&B report and pass or fail via Award.
Over £300k	Full financial appraisal

5 Contract values for PCGs and Bonds

The following table shows the standard Crossrail position on the requirement for parent company guarantees and performance bonds dependent on contract values. For works contracts the contract value means the tendered Total of the Prices.

Contract value for works, peak annual value for services	Works		Services	
	PCG	Bond	PCG	Bond
£10m +	Y	Y*	Y	Y *
£4m - £10m	Y	N	Y	N
£300k - £4m	See test below	N	N	N
Under £300k	N	N	N	N

*requirement may be waived if not considered to represent value for money, by agreement between Finance and Procurement

Works contracts under £4m: PCG required if score is greater than 8 on the following test:

PCG test for contracts below £4m	Score 0	Score 2	Score 4	Score
Is contract scope critical to the delivery of Crossrail	Not critical	Somewhat critical	Critical	Insert 0, 2, 4
Ease of replacing supplier - capacity in the market	Easy to replace, significant capacity	Somewhat difficult to replace	Difficult to replace	
Ease of replacing supplier – complexity of service	Simple service		Complex service	
Cost to Crossrail of supplier failure in terms of delivery against milestones and budgets	No time issues and minor cost	Significant time or cost issues	Major time or cost issues	
Supplier turnover for latest financial year divided by peak annual contract value	>30	<30	<10	
			Total	

Professional indemnity insurance will be required for professional services contracts, the level of cover required is to be confirmed with the Commercial and Insurance Manager.

The above table is a guideline and the actual requirements of a particular contract may be altered by agreement between the Finance Operations Director and the Procurement Director in individual cases, . In the event that agreement cannot be reached, the Commercial Subcommittee will decide.

Where a tenderer's economic and financial capacity is judged by Finance to be weak, a PCG or bond may enable the tender's qualification to be accepted, where such surety would not otherwise be required by these guidelines.

It is the responsibility of the Procurement Leader to notify the Procurement Director and the Finance Operations Director if he or she considers that the contract may involve particular risks which require bonds or guarantees at lower levels than that set out above.

6 Reference Documents

Ref:	Document Title	Document Number:
1.	None	
2.		

7 Standard Forms / Templates

Ref:	Document Title	Document Number:
A.	None	

